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TAGS: [ECON](#) [PREL](#) [FAIR](#) [USTR](#) [RS](#)
SUBJECT: BOEING RUSSIA: AEROFLOT 787 DEAL DEPENDS ON
COOPERATION WITH UAC

Classified By: ECON M/C Quanrud by reason 1.4(b/d).

¶1. (SBU) According to Boeing sources, Minister of Finance Kudrin, Minister of Economic Development and Trade Gref, and Minister of Industry and Energy Khristenko agreed on December 19 to delay the GOR's decision on Aeroflot's acquisition of 22 wide-bodied jets until the GOR receives written proposals from Airbus and Boeing on potential cooperation with the United Aircraft Corporation (UAC). Due to the absence of a GOR decision on aircraft purchase, the Dreamliner vote never made the Aeroflot Board's December 19 agenda.

¶2. (SBU) Boeing plans to caucus in Seattle January 9-13 to decide what proposal, if any, to submit in response to the GOR request. Over the past three weeks, Boeing has amended its thinking on the 787 sale, and while Aeroflot will lose its 2011 delivery slots on January 1, the current contract will not be torn up, as was previously contemplated. All of this means that lengthy contract and price renegotiations will therefore not be necessary in the new year.

¶3. (SBU) Both Boeing and EADS are already working actively with UAC component companies. Boeing is Sukhoi's principal partner on the SuperJet100, and is considering a joint venture on the Sukhoi SuperSonic Business Jet (a corporate jet that could break the sound barrier). Boeing has hosted countless design engineers from Sukhoi and other UAC member companies as detailees in its Moscow Boeing Design Center, conveying significant technical and management expertise.

¶4. (SBU) EADS owns 10% of Irkut, and is working with the company on A330 cargo conversions. In its rush to bring the A359XWB to market without further delays, EADS is rumored to be ready to subcontract out up to 45% worldwide. UAC is looking at some of the design and manufacturing work, as EADS tries to control labor costs and avoid additional delays. Russia's state-owned Vneshtorgbank owns approximately 6% of EADS and sits on the UAC Board. The press is circulating rumors that the GOR wants to transfer the EADS stock to UAC as an "insurance policy" that cooperation between the two companies will go well.

COMMENT

¶5. (C) Aircraft-manufacturing has become informally known as the "fifth national priority project" and the success of the United Aircraft Corporation is being increasingly cast as vital to Russia's national security. The GOR is actively seeking foreign partners for UAC, and is apparently prepared

to leverage Aeroflot's pending purchase of 22 wide-bodied jets in the effort. With this new twist, the clear commercial merits of the 787 over the yet-to-be-designed A350XWB are losing further ground. Independent of the firm's reply to the latest GOR call for cooperation, Boeing management has said that it will continue to grow its Moscow Design Center and titanium joint-venture because of their inherent value to the company. As this battle ripens, EADS will have to decide how far it is willing to go in what looks to be a parasitic relationship with the emerging UAC, but, for UAC's part, the state controlled EADS may be a more attractive mate.

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